Efficiency Analysis of the National Support Measures for the SME Sector in the Russian Federation during the Pandemic

By Glukhov Konstantin, Chebashev Ilya & Mikhailovsky Alexey

Annotation- The article represents an aggregate analysis of the legal and economic measures pointed on SME’s national support during the COVID-19 pandemic, as well as detailed research of the appropriate legislative acts governing particular aspects of credit anti-crisis support. There are inferences about the SME sector’s condition based on statistical data during the crisis period introduced and specific negative trends associated with the impact of the pandemic identified. Furthermore, the article focuses on a detailed examination of foreign experience in the anti-crisis support measures field. There were scientific research methods used, such as analysis and generalization of domestic and foreign anti-crisis measures as a part of this article.

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I. Introduction

Nowadays, the consequences of the pandemic of the new coronavirus infection have a negative impact on the economy of the Russian Federation. It is important to emphasize that a pandemic is significantly different in size, high risk of uncertainty, and spread duration. The most severe consequences of the pandemic experienced the main factors of the economic environment that make a significant contribution to the national economy - small and medium-sized enterprises (SMEs). Notably, little and medium-sized businesses in the event of certain crisis phenomena are the most vulnerable in comparison with large businesses because they do not have the necessary amount of the financial and managerial resources and have low competitiveness at the initial stage of life cycle. For this reason, state support for SMEs is a vital element of the state’s response to the current the negative economic situation in connection with the pandemic.

SMEs determine a sector of commercial organizations in the economy, where a significant impact on the level of employment and income of the population defines the importance. Huge advantages of the growth and development of this sector are an increase in the degree of competitiveness and consumer well-being of the economy. In many countries of the world, a developed SME sector is the basis for the creation of new high-performance enterprises that introduce a great deal of innovation.

In Russian legislation, categories of micro-enterprises, small and medium-sized enterprises are distinguished, determined following the number of employees and annual incomes. Micro-enterprises - up to 15 people and up to 120 million rubles of income; small businesses - up to 100 people and up to 800 million rubles of income; medium-sized enterprises - up to 250 people and up to 2 billion rubles of income. For international comparison in OECD countries, small and medium-sized enterprises include organizations with up to 250 employees and fall into four categories without restrictions on the amount of income. These enterprises account for 48% of GDP in Korea, 51% in Great Britain, 53% of GDP in Germany, 60% in Finland, which in its structure significantly exceeds the same indicators in Russia. Support for small and medium-sized businesses is a direction of state economic policy in most countries.

The negative consequences of the pandemic contributed to the collapse of oil prices in the world market, in turn, causing the devaluation of the ruble. Owing to the restrictions imposed aimed at reducing the incidence of coronavirus infection, there was a decrease in demand and business activity. During the pandemic, there was an observation of the following trends:

— In April 2020, there was a significant decrease in the activity index PMI of small and medium-sized businesses to a record low of 38.5 points (if in January this indicator was 51.4 points, then, in March, there was a decrease by 6.4 points, and by April it was by 6.5 points). However, since 2021, there has been a growing trend in SME business activity: In January 2021, the SME activity index increased to 49.3 points, and in February, this indicator equaled the pre-pandemic value and amounted to 51.6 points. This event suggests that the SME sector is gradually adapting to the new conditions caused by the pandemic. Mass vaccination of the population, as well as the weakening and lifting of coronavirus restrictions, will further contribute to the restoration of business activity.

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— At the end of November 2020 - January 2021, the number of unemployed amounted to 4.46 million people. (an increase of 1.3% compared to the same period last year).

— Weak demand caused by a decrease in customer flow due to coronavirus restrictions is one of the main problems for SMEs in early 2021.

It is important to emphasize that measures of government support for SMEs should primarily focus on maintaining and strengthening the innovation of enterprises. Practice shows that the vulnerability of the considered sector of the economy lies not only in the lack of the required amount of financial and managerial resources but also in the low share of direct use of various innovative potential and technologies in the production process. The months of the pandemic have demonstrated the role of innovative technologies in the activities of enterprises since companies that have been actively introducing advanced digital technologies and solutions have experienced the crisis phenomena caused by the pandemic less sensitively than other representatives of small and medium-sized businesses that have just begun the transition to digital technologies. [5]

Amongst the measures to support small and medium-sized businesses, one can single out those aimed at long-term stimulation of development, including direct and indirect support for business entities and improving the quality of the business environment, and anti-crisis measures aimed at reducing damage to business entities during unforeseeable events in the economy. In the Russian Federation, there was a provision of support for small and medium-sized businesses and affected sectors of the economy in the form of deferrals for taxes, social insurance contributions, lease of state and municipal property, subsidies for SMEs in the most affected sectors, and the provision of concessional lending. The consequences of the crisis may be the risk of large-scale liquidation of SMEs due to the inability to fulfill financial obligations or the sharp decline in profit.

As long-term directions for the development of small and medium-sized businesses, it is necessary to highlight the removal of several administrative, regulatory barriers in the activities of SMEs, strengthening institutions for protecting property rights, improving tax legislation, simplifying access to credit funds, supporting export operations, creating and developing an innovative environment, and others. [15]

It is worth noting that the current crisis is not of a qualitative systemic nature, but a temporary force majeure circumstance caused it. The main events that damaged the activities of small and medium-sized businesses were the suspension or restriction of the activities of sectors of the economy, the introduction of a non-working day regime, the need for additional costs, and a general decrease in demand, especially for certain types of goods and services. At the same time, the decline in economic activity has a multiplier effect, causing a drop in real incomes of the population and a decrease in effective demand. In this situation, it was necessary to take anti-crisis measures to minimize the economic damage to business entities, including financial, tax, banking, and administrative support for SMEs. Public finance can provide the SME sector with the help it needs. The implementation of such necessary measures as a delay in tax payments, a moratorium on the bankruptcy of an enterprise initiated by creditors, a reduction in insurance premiums, a decrease in interest rates for the most efficient mitigation of the negative consequences caused by the pandemic should be carried out in a comprehensive manner. [8]

The importance of supporting and increasing the small and medium-sized business sector is enshrined in the decree of the President of the Russian Federation "On national goals and strategic objectives for the development of the Russian Federation until 2024," which, among other things, infers an growth in the amount of people laboring in small and medium-sized businesses up to 25 million people with the value of this indicator in 2018 is 19.2 million. [1] Also, in the passport of the national project "Small and Medium Enterprises and Support for Individual Entrepreneurial Initiatives," the goals are set to increase the share of small and medium-sized businesses in GDP from 22.3% in 2018 to 32.5% in 2024 and to increase non-resource exports from 8.6 to 10%.

For a more detailed analysis, it is necessary to consider the measures proposed by the Government of the Russian Federation directly to support the SME sector in the face of a complicated epidemiological situation. Since 2019, to SMEs have been granted preferential loans in accordance with the Decree of the Government of the Russian Federation, No. 1764 of December 30, 2018 “On Approval of the Rules for Granting Subsidies from the Federal Budget to Russian Credit Institutions and Specialized Financial Societies to Reimburse Their Lost Income on Loans Issued in 2019 - 2024 for small and medium-sized businesses, as well as individuals applying a special tax regime “tax on professional income” at a preferential rate ”(Hereinafter referred to as the “Small and Medium Enterprise Preferential Loan Program”, Rule 1764). It should be noted that this program was used as a general measure to support SMEs before the introduction of quarantine restrictions, and in accordance with the Resolution of the Government of the Russian Federation No. 372 dated March 31, 2020 “On Amending the Rules for Granting Subsidies from the Federal Budget to Russian Credit Institutions and Specialized Financial Institutions. Companies to reimburse their lost income on loans issued in 2019 - 2024 to small and medium-sized businesses, as well as individuals applying a special tax
regime “Tax on professional income” at a preferential rate “has also become a significant tool of anti-crisis support. Let’s highlight the main aspects of this regulatory legal act:

Table 1: Characteristics of concessional loans for SMEs

<table>
<thead>
<tr>
<th>Purpose of lending</th>
<th>Loan amount</th>
<th>Credit term</th>
<th>Rate Criteria</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Objectives</td>
<td>from 500 thousand rubles to 2 billion rubles. up to 5 years</td>
<td>should not exceed the value of the key rate of the Central Bank of the Russian Federation (as of the date of the loan agreement (agreement)) by more than 2.75% per annum</td>
<td>the borrower must carry out its activities directly in one (several) industries in accordance with Appendix No. 1 of Rules 1764; loan for purchase and (or) creation fixed assets</td>
<td></td>
</tr>
<tr>
<td>Replenishment of working capital</td>
<td>from 500 thousand rubles to 500 million rubles. up to 1 year</td>
<td>should not exceed the value of the key rate of the Central Bank of the Russian Federation (as of the date of the loan agreement (agreement)) by more than 2.75% per annum</td>
<td>the borrower must carry out its activities directly in one (several) industries in accordance with Appendix No. 1 of Rules 1764</td>
<td></td>
</tr>
<tr>
<td>Business development</td>
<td>up to 10 million rubles. up to 5 years</td>
<td>should not exceed 9.95% per annum</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Refinancing</td>
<td>-</td>
<td>for a period not exceeding the term of the previously received loan</td>
<td>should not exceed the value of the key rate of the Central Bank of the Russian Federation (as of the date of the loan agreement (agreement)) by more than 2.75% per annum</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Rules 1764 [4]

The Ministry of Economic Development of the Russian Federation has selected more than 100 credit institutions with experience in lending to small and medium-sized businesses to participate directly in the implementation of Rules 1764. This list includes large domestic banks with an expanded branch network and small regional banks with experience in lending to SMEs. By Rules 1764, the borrower has the right to apply for a preferential loan in any of the authorized banks.

Resolution 372 optimized the parameters of Regulation 1764, namely:

— Borrowers received simplified requirements with the exception of condition for the absence of arrears in taxes, fees, wages, and also of overdue payments under loan agreements for a period exceeding 30 calendar days;
— The maximum total amount of loan agreements for refinancing has become unlimited;
— Introduced the possibility of refinancing loan agreements for circulating purposes.

Since the beginning of the year, as part of the concessional lending to SMEs, more than 7 thousand loan agreements have been concluded for a total amount of over 425 billion rubles, with a planned volume of issuance in 2021 of 700 billion rubles.

To improve the targeting of support for SMEs, amendments were made to Rules 1764, which establish for banks the maximum share of loans for replenishment of working capital at least 50% and, accordingly, the percentage of loans for investment purposes is less than 50%, introducing a uniform rate of lending throughout the year and establishing differentiated subsidy rate scales depending on the industry, borrower category, and loan size. The amendments establish a subsidy rate of 1% for loans for construction and lease of real estate, as well as for loans to SMEs classified as micro enterprises for over RUB 200 million and the category of “small business” for over RUB 500 million.

As a measure of anti-crisis support, Decree of the Government of the Russian Federation of April 02 2020, No. 422 “On Approval of the Rules for Granting Subsidies from the Federal Budget to Russian Credit Institutions to Reimburse Their Lost Income on Loans Issued in 2020 to Business Entities for Urgent Needs to Support and maintaining employment”. In accordance with this resolution, legal entities and individual entrepreneurs could receive loans to pay wages, taking into account regional coefficients and compulsory charges for it for a period not exceeding six months and ending no later than November 30, 2020, at a rate of 0% per annum when carrying out activities in the most affected sectors of the economy. The maximum loan
amount is the product of the minimum wage with mandatory charges on it, the number of employees, and the subsidy period. 17,792 loan agreements totaling 94.735 billion rubles totaling 94.735 billion rubles were concluded as part of this anti-crisis support measure.

In addition, Resolution of the Government of the Russian Federation of May 16, 2020, No. 696 “On Approval of the Rules for Granting Subsidies from the Federal Budget to Russian Credit Institutions for Reimbursement of Lost Incomes on Loans Issued in 2020 to Legal Entities and Individual Entrepreneurs to Resume Activities” according to which, subject to the established conditions, borrowers from affected sectors of the economy were provided loans at 2% per annum with the possibility of partial or full write-off while maintaining employment in the period from March 2020 to April 1, 2021, at a level of at least 80%. The maximum loan amount is the product of the minimum wage, the number of employees, and the number of months of the base period of the loan agreement, not exceeding six until December 1, 2020. [12] Within the framework of this Resolution, 225,842 loan agreements were concluded for a total amount of 442.903 billion rubles; or 99% of the established limit of budgetary funds, when applications for soft loans totaling 871.724 billion rubles. Therefore, that this program has become one of the most demanded measures of anti-crisis support.

Another measure of anti-crisis support was the adoption of the RF Government Decree of April 2, 2020, No. 410, “On Approval of the Rules for Granting Subsidies from the Federal Budget to Russian Credit Institutions in 2020 to Ensure the Deferral of Payment on Loans to Small and Medium-Sized Businesses,” following with which the borrowers of the most affected sectors of the economy were provided with a deferral of payment of payments under previously issued preferential loan agreements, for not more than 6 months, ending no later than December 31, 2020, on payment to credit institutions of 67% of the interest payments. [3] As a part of this support measure, a deferral was granted for 737 loans for 16.77 billion rubles and a total number of subsidies for interest payments of 626 million rubles. In contrast, the initially planned amount of aid was 1.424 billion rubles.

Also, the Federal Law of 03.04.2020 No. 106-FZ "On Amendments to the Federal Law" On the Central Bank of the Russian Federation (Bank of Russia) and certain legislative acts of the Russian Federation regarding the specifics of changing the terms of the loan agreement, loan agreement was adopted, in which the possibility was established for borrowers from the most affected sectors of the economy to suspend the fulfillment of obligations under existing loan agreements for a period of up to six months.

To support the most affected industries, Decree of the Government of the Russian Federation of February 27, 2021, No. 279, “On the Approval of the Rules for Granting Subsidies from the Federal Budget to Russian Credit Institutions for Reimbursement of Lost Incomes on Loans Issued in 2021 to Legal Entities and Individual Entrepreneurs for Recovery entrepreneurial activity.” By this decree, borrowers who meet certain conditions, including those who have previously entered into a loan agreement under the Decree of the Government of the Russian Federation, No. 696, and who operate in the established list of sectors of the economy that need support for recovery, are provided with soft loans at a rate of 3% per annum for 6 months and maturity in the next six months, provided that employment remains at a level of at least 90%. The maximum amount of the loan agreement is the product of the minimum wage, the number of employees and the billing period of 12 months, but not more than 500 million rubles. Authorized banks receive a subsidy of 6% per annum for the issuance of these loans.[4] The implementation of this resolution made it possible to conclude 8.58 thousand loan agreements in the amount of 22.9 billion rubles out of 11.62 thousand approved applications for a total of 36.31 billion rubles with 21.72 thousand applications received.

Consider the main anti-crisis support measures introduced in most countries of the world. The main event include tax incentives, lease deferrals, loan installments, subsidies, and soft loans.

So, in China, among the measures were provided deferred payments on loans, tax exemptions for up to three months for small and medium-sized businesses and a reduction in export duties. Also, reserve requirements for credit institutions have become less to increase liquidity in the economy. [11]

In Korea, support measures included a reduction in the rate and the provision of concessional lending, a reduction in consumption taxes, and tax credits to landlords while reducing payments for tenants.

In the United States, the main support measures used were payments to the population in US $ 1,200 and concessional business lending programs. [nine]

In the UK, anti-crisis assistance was provided by providing taxable payments to self-employed and laid-off employees in the amount of 80% of their average monthly income over the past three years, but not more than £ 2,500 per month.

In Germany, the measures applied were deferred tax payments and social security contributions, lowering property taxes, providing subsidies to small businesses and the self-employed, providing soft loans, and making it easier for small businesses to participate in public procurement. State aid in the amount of about 50 billion euros was allocated for the provision of subsidies and about 30 billion euros for subsidizing concessional loans. [10]
It is possible to assess the effectiveness of implementing anti-crisis support measures by such indicators as the change in the number of SMEs, the number of SME employees, changes in revenue, and business activity indices. The average number of employees of small enterprises (excluding micro-enterprises) has been decreasing annually, according to Rosstat, since 2017: 2017 - 6 671 832; 2018 - 6,271,693; 2019 - 5 977 621; 2020 - 5 469 124, people. The turnover of small enterprises (excluding micro-enterprises) in 2019 amounted to 28,712,045,117 thousand rubles; for 2020 - 25 619 841 129.8 thousand rubles, and thus decreased by more than 3 trillion rubles. [14] Given the availability of these indicators, we can speak of the insufficiency of the ongoing systemic and anti-crisis measures to support small and medium-sized businesses. When carrying out anti-crisis support measures, one can note the limited budgetary funds and, possibly, insufficient coverage of business entities with these support measures for reasons, including insufficient awareness of support measures, the inconsistency of types of economic activities, mistrust of the reliability of the credit mechanism as a form of providing anti-crisis support and others. Also, the decline in real incomes of the population is a significant factor limiting demand in the SME sector.

Another indicator for assessing the health of the SME sector and the support measures provided to it is the Business Confidence Index, calculated by the OECD. The base value of this index is 100. At present, the value of this index for Russia is 102.57 points, which is ahead of most other countries, including Germany, the USA, China, Poland. This indicator indicates the possibility of a confident economic recovery in comparison with other countries of the world. [13]

II. Conclusions

The economic consequences of the spread of the new coronavirus infection have become test for the Russian economy as a whole and, especially, for the small and medium-sized business sector. A number of anti-crisis measures to support small and medium-sized businesses and the most affected sectors of the economy functioned to reduce the economic damage caused by forced restrictions on economic activity and the overall decline in effective demand, which corresponds to the world practice of adopting anti-crisis support programs. The anti-crisis measures implemented have shown their strong demand for SMEs.

Implementing anti-crisis support programs for small and medium-sized businesses had an insufficient amount allocated budget funds to satisfy applications for participation in anti-crisis programs and compensate for lost income of business entities as a result of quarantine restrictions. Most of the anti-crisis programs were designed to support a list of the most affected sectors of the economy, which, given the negative impact of the crisis on most sectors, does not fully correlate with the achievement of the goal of uniformly reducing the crisis damage to the economy as a whole. Also, anti-crisis support measures were provided on a declarative basis in providing soft loans, as a result of which, with insufficient information and a low level of confidence in financial institutions, not all affected small and medium-sized businesses could receive anti-crisis support. In addition, the temporary effect of the adoption and implementation of anti-crisis measures, which cannot be a determining factor in influencing the long-term trends in the dynamics of the development of small and medium-sized businesses. Nevertheless, the implementation of anti-crisis support programs showed high efficiency. It did not significantly deteriorate the functioning of the SME sector, given the complexity and scale of this crisis, which confirms the recovery of indicators of business activity indicators.

References Références Referencias


